

STATEMENT BY SENATOR PAUL H. DOUGLAS (ILL.), CHAIRMAN
Joint Economic Committee
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SOVIETS FIGHT FACTS WITH POLEMICS

The Committee has invited you gentlemen here for the purpose of discussing an attack by the Soviet press on one of the Committee's recent publications, Annual Economic Indicators for the U.S.S.R.

The Committee print in question is almost entirely statistical in content. Our reason for releasing it in this form is quite simple. We consider it to be, essentially, a statistical supplement to the more ambitious collection of staff papers on the Soviet economy, Dimensions of Soviet Economic Power, released by the Committee in December 1962.

The basic materials contained in the publication were submitted to the Committee by experts in many agencies of the government, including the Bureau of the Census, the Department of Agriculture, the Department of Commerce, the Department of Health, Education, and Welfare, and the Library of Congress, as well as individual contributors in private, non-profit agencies. Furthermore, the Committee staff and its consultants have judiciously reviewed and selected the materials which were submitted. We are confident that these materials represent the best available assessments of Soviet economic development.

The Pravda article in question bears the signature of the number one statistician of the Soviet Union, but Vladimir Starovskiy, the author, is not cited in his role as Chairman of the Central Statistical Administration, but rather as a correspondent member of the U.S.S.R. Academy of Sciences. Furthermore, the obvious lack of understanding of the meaning of certain economic and statistical concepts used in the Committee publication lead one to wonder if the article was really prepared by Mr. Starovskiy.

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The vituperative and insulting personal attacks engaged in by the author of this article neither behoove a scholar in public service nor advance the Soviet case. Quite the contrary, his attempt to obscure the major issues by a polemical smokescreen is quite evident even to the layman. The clear implication thus remains that the Soviet economic situation is no better, and perhaps worse, than the Committee report suggests. It seems apparent that if the situation were indeed better, Mr. Starovskiy, who has at his disposal the entire statistical apparatus of the Soviet government, could have presented a realistic, straight-forward discussion of factual materials, rather than resorting to argument by obfuscation.

The article does not attempt to criticize the Committee's estimates through logical refutation of specific measurements; instead it indulges in vilification of the concepts employed and makes ex cathedra substitution of official Soviet estimates. In many cases, the author substitutes entirely different concepts for those being criticized and sets up straw men to demolish by his authoritative official estimates. He does not hesitate to inconsistently select data with an eye to maximum political advantage. No attempt is made to compare Soviet performance with the major industrialized economies of Western Europe or Japan, probably because of the unfavorable comparisons they would yield for Soviet accomplishments.

The Pravda article asserts that the rules of international comparisons oblige the estimator to accept official statistics of both countries. Such an approach would effectively disguise the biases which are contained in the methodologies and concepts employed by each country's statisticians. What the contributors to the Committee's

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publication have laboriously attempted is to assure as much uniformity of statistical procedure as possible. This effort has involved adjusting official Soviet statistics to accord with U.S. computational procedures. Much the same results would have been attained if it had been possible to adjust U.S. data to official Soviet procedures.

A case in point of the blatant misuse of statistical comparisons is seen in the rather crude attempts of Mr. Starovskiy to compare Soviet gross industrial product with the U.S. industrial production index and other aggregate indices. Neither the Soviet concepts of national income, gross socialistic product, nor gross industrial production is directly comparable to U.S. gross national product or industrial production. Soviet national income in large measure does not reflect the services sector of the economy which in the U.S. forms an important and rapidly growing element in the national income accounts while in the Soviet Union it is relatively unimportant. The Soviet gross industrial production figure is fraught with double and often higher multiple counting of output. (Simply stated this concept counts the value of lathes as iron ore, machined parts, then as the assembled product.) The U.S. concept of value added counts only the additional value added by each successive step in the production process. This difference in conceptual bases has become increasingly more important as the Soviet economy has become more diversified.

Even if we were to accept the inflated Soviet figures and their rather crude comparisons, we find as Mr. Starovskiy does, that Soviet National Income and Gross Social Product were "more than" 60 percent in 1963, but these are the same phrases that the Soviets have used since 1961. It is thus apparent that even accepting these extremely

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biased comparisons that the relative positions of the Soviet Union and the U.S. have not changed, despite Mr. Khrushchev's vaunted boasts.

The Committee staff and its consulting experts have prepared some detailed, analytic materials which follow.

I. Main Findings of the Committee Print

A. General Indicators. Most economic indicators in the U.S.S.R. have been slipping downward rather conspicuously within the past 4 - 5 years, as shown below:

	<u>Period</u>	<u>Average Annual Rate of Growth</u>
<u>G.N.P.</u>	1950-58	6.8 percent
	1958-62	4.3 percent
	1962	2.2 percent
<u>Industrial Production (civilian)</u>	1955-58	10.1 percent
	1958-62	7.2 percent
	1962	7.1 percent
<u>Investment</u>	1950-58	10.8 percent
	1958-62	7.7 percent
<u>Marginal Capital/Output Ratio</u>	1950-58	3.3 percent
	1958-62	6.2 percent
<u>Index of Consumption (per capita)</u>	1955-58	4.2 percent
	1958-62	2.9 percent
<u>Index of Agricultural Production</u>	1955-58	8.0 percent
	1958-62	0.4 percent
<u>Labor Productivity</u>	1950-58	5.0 percent
	1958-62	3.3 percent
<u>Employment</u>	1950-58	1.7 percent
	1958-62	1.3 percent

B. Industrial Production. The Pravda article refutes the Committee's conclusions as to the declining rate of increase in Soviet industrial production by citing official gross production statistics for the years 1958-1963. Although these figures show the annual rate of increase

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declining from 11.4 percent in 1959 to 8.5 percent in 1963, directly below the table is the bland assertion that "As can be seen in the table, our industry has a steady, high rate of growth." The Committee's estimates indicate roughly the same degree of deceleration at lower rates of growth. The higher official rate of growth is explained by the Soviet index which is gross in its measurement, a universe rather than a sample in coverage, and inclusive of all new products, generally at higher prices than comparable existing products. By contrast, the official U.S. index, as constructed by the Federal Reserve Board, is net in measurement, covers a representative sample of output, and introduces new products selectively at price levels comparable with existing production. The Committee's estimate of Soviet industrial output uses accepted U.S. procedures in its measurement, which is built up from published Soviet physical production data.

The article asserts that the Committee's conclusion as to a declining rate of Soviet industrial growth implies that it has been less than the U.S. rate. Nowhere in the document does such an implication appear. The Pravda article uses a carefully selected sample of industrial products to prove that the

Soviet industrial growth rate has been higher than the U.S. rate. They do not point out that the Soviet ratio of output of many of these products was a small fraction of U.S. output in the base year, they avoid showing physical output comparisons, nor do they introduce items such as automobiles, electrical appliances, or synthetic fabrics in which the comparison would be unfavorable to the U.S.S.R. Special pride is taken in the fact that Soviet steel production is rapidly approaching U.S. production for a slack year,

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but conveniently omits Khrushchev's admonition to Soviet planners to shed their "steel blinders" and consider the use of light metals and plastics as substitutes.

C. Gross National Product. The criticism of the Committee's Soviet gross national product trends substitutes the less inclusive Marxist concept of national income for the Committee's standard western concept. The Soviet concept excludes the services sectors whose growth has been slower than that of GNP as a whole. In addition to this factor, the Soviet concept would also overstate growth because of the aforementioned overstatements of industrial and agricultural output, which enter as components into a national income index. The article notes with satisfaction that the Committee did not accept the "falsified" CIA estimate of 2.5 percent for the growth of Soviet national product in 1962. What it does not say is that the Committee's estimate for that year was only 2.2 percent!

D. Productivity. With regard to the Committee's estimate of the rapidly declining rate of increase in labor productivity for the Soviet economy as a whole, the article evades the issue by narrowing the terms of reference to labor productivity in industry. This estimate is, of course, subject to the same criticism as that previously noted for the official estimate of industrial production.

E. Investment. The Committee publication concluded that the return on investment (marginal capital-output ratio) was declining more rapidly in the Soviet economy than in the other major industrialized economies. The article apparently does not understand the concept, even though the similar criterion of "effectiveness of investment" is frequently used by Soviet planners. Instead, it presents the irrelevant

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indicator of profits in industry. Even if profits were considered as a relevant criterion, it should be remembered that profits are highly arbitrary in the Soviet environment, being largely determined by planning authorities rather than reflecting the efficiency of production.

F. Defense. The Committee publication included a tabular presentation of comparative per capita defense expenditures of the principal industrialized economies. The drain of defense upon Soviet resources was clearly evident. The Pravda article answers this conclusion by a cruder and misleading argument. It compares budgetary defense expenditures as proportions of national income computed according to the Marxist concept and shows the U.S. proportion to be almost double the Soviet. There are two biases in the comparison which favors the U.S.S.R. By excluding services from the concept of national income a considerably larger share of U.S. national product than of Soviet is excluded, as the services with their consumer orientation are proportionately about twice as large in the U.S. economy. It is generally accepted among western analysts that the explicit Soviet budgetary defense allocation covers only a portion of total defense outlays, whereas the U.S. budgetary appropriation is nearly exhaustive of the total. Therefore, the comparison used in the Pravda article both underestimates Soviet defense expenditures and underestimates U.S. national product relative to Soviet GNP.

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G. Agriculture: Two things are quite clear in Soviet agricultural production during the decade 1953-1963: (1) during the years from 1953 through 1958, the first half of the decade, total agricultural production in the Soviet Union increased rapidly; and (2) during the years from 1959 agricultural production has stagnated and in 1963 this stagnation was capped by a serious crop failure.

These points are indisputable and the Soviet Union does not deny them. The USDA has acknowledged in its reports on the Soviet Union that great progress took place in Soviet agriculture during these years. Not only did total agricultural output increase, but output per capita also increased. Net agricultural production increased rapidly between 1955 and 1958. Since 1958, however, stagnation has characterized Soviet agricultural production. The official Soviet index of agricultural production (a gross index) indicates that with 1958 as a base the index numbers are as follows:

1958	100	1961	105.5
1959	100.4	1962	106.8
1960	102.7	1963	N/A

By the Soviet index agricultural output grew from 1955 through 1958 at about 8 percent. Since that time, even by their index this rate of growth has dropped sharply. An 8 percent growth rate for agriculture was planned from 1959 through 1965 which as the Soviet index indicates has not been achieved. When 1963 is taken into consideration it will require a feat of leger-de-main to show a level of output in 1963 as high as 1958.

When comparing the US rate of agricultural growth with that of the USSR it must be remembered that the former is a country with a highly developed agricultural economy which is producing considerably more than can be consumed within the boundaries of the United States. This is not true of Soviet agriculture. Mr. Khrushchev has repeatedly indicated that the Soviet Union has a long way to go before "adequate" levels of food consumption exist in that country. This has been the whole point of his programs since 1953 and it is the significant point of the stagnation which has taken place since 1958. Mr. Khrushchev and all Soviet leaders are aware of this and have repeatedly brought the subject up especially in the March Plenum 1962, The December plenum in 1963 and the February plenum in 1964.

In its attempt to negate the Committee's conclusion as to the stagnation of Soviet agriculture, the article conveniently obscures the miserable record of the past two years by lumping these years together with the bonanza crop year of 1958. Instead of comparing individual years, it compares annual averages for 1958-63 with those for 1953-57 and 1948-52. Official Soviet grain production estimates are recognized by Western analysts to be inflated by the amount of harvest and storage losses, but even if they are accepted they would show that the marketed wheat crop declined 21 percent between 1958 and 1963.

In order to highlight Soviet agricultural success, the article contrasts increases of Soviet and U.S. output of grain, butter, sugar, milk and meat between 1948-52 and 1958-62. It does not mention that

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Soviet output in the base period had not yet recovered from severe war-time devastation and that grains and dairy products have been surpluses in American agriculture, the output of which government policy has sought to restrict, not to encourage. The meat comparison overlooks the vast qualitative differences between the low grade pork and sausage typical of the Soviet diet and the high quality beef so prevalent in U.S. consumption.

I cite here but one of the shocking examples of statistical manipulations for political purposes which seem to be characteristic of current Soviet agricultural statistics.

The Riddle of Current Soviet Wheat Production

According to Soviet claims, the USSR produced 70.8 million tons of wheat in 1962. This is a great deal of wheat: to be exact, it amounts to no less than 27 percent of total world output. It is difficult to avoid the presumption that this is a "political" figure rather than a measure of wheat brought into the barn. After all, the Soviet Union contains only 7 percent of the world's population; with the addition of East Europe it is still only 10 percent.

For this and other reasons, our experts at the Department of Agriculture have found it necessary to squeeze more and more water out of the official Soviet grain figure with every passing year. For 1962, the Department has calculated a figure of 54 million for Soviet wheat production, as against the claimed output of 70.8 million tons.

If the Soviet farms had, in fact, produced the amount of wheat claimed in the official production reports over the past five years, namely 346 million metric tons, it would be inconceivable that large reserves of wheat were not held by the Soviet Union. However, the heavy importation of wheat by the Soviets in the past year lead to but one conclusion -- their agricultural reserves were non-existent and that their situation is extremely precarious.

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II. The Credibility of Soviet Statistics

A. The Lessons of the Long Drought

Anyone who has had occasion to follow the economic development of the USSR in quantitative terms is familiar with a number of very real problems in regard to the adequacy and reliability of Soviet statistics.

For example, between 1939 and 1956, the Soviet government did not publish any systematic body of official statistics. Odd pieces of economic information had to be found scattered through the long and tedious political speeches of the party high command. By choosing this method of presenting official data, the Soviet authorities taught a number of interested students in the West the hard lesson of how to work with fragmentary, self-serving, often contradictory, official data. Though economic information is now dispensed more systematically, the practical lesson of the need to take painstaking care with officially released Soviet data, learned during the years of the drought, has proven to be indispensable.

B. The Device of the "Biological Yield" Harvest

Until some ten years ago, Soviet official statistics followed the dubious practice of reporting the annual grain harvest on the basis of a statistical euphemism called the "biological yield". This figure, which was passed off as "production", was nothing more than the official estimate of the grain stand in the field, before the harvest with its usual heavy losses.

When this practice was abolished, we learned that in the last year for which this practice was used (1952) the actual barn yield of 80 million metric tons had been blown up to a "biological yield" of 120 million tons, i.e., by a margin of 50 percent.

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C. New Industrial Output Figure

We are always glad to see the Soviet Union liberalize its information policy. This, in our view, can only be a move in the right direction. We therefore welcome the new figure on total industrial output, including the year 1963, provided by Mr. Starovskiy. However, perhaps because of the novelty of the experience, there seems to have been some confusion in the front office. The new official figure measuring the output of the industrial sector alone is larger than the whole of national income: 185.8 billion rubles in the case of the former, as against 165.1 billion rubles for the latter. There will probably be some explanation in due time. For the time being, however, we can only report our puzzlement. We would have liked very much to be able to calculate, for example, what proportion the industrial sector contributes to the total national product in the USSR.

Here are the two statistical series (in billion rubles):

	<u>National Income</u>	<u>Industrial Output</u>
1960	145.0	155.2
1961	153.0	169.4
1962	165.1	185.8

III. Stalin's Opinion of Soviet Statisticians

Speaking from the rostrum of the XIII Party Congress in 1924, at a time when official statistical standards had only begun to deteriorate in Russia, Stalin gave to the world the following opinion of the professional integrity of the statisticians who had enlisted in his service.

In bourgeois states a statistician has a certain minimum amount of professional honor. He cannot lie. He can be of any political conviction and inclination but wherever facts and figures are concerned he will submit to torture but will not tell an untruth. If only we had more such bourgeois statisticians, people who respect themselves and possess a certain minimum of professional honor. 1/

1/ Report to the 13th Congress of Russian Communist Party (1924) Sochineuiya (Gospolitizdat, Moscow, 1947) Vol. VI, pp. 214-215.

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IV. The Main Source of Growth of Soviet Industrial Output

In viewing the rather impressive rates of growth recorded by Soviet Industry, it is important to bear in mind that Industry in the USSR receives regularly over 60 percent of all investment capital allocated to the sphere of production. In terms of employment, industry accounts for some 25 percent of the nation's labor force. The relevant figures (for 1962) are as follows:

	Total (New fixed productive investment)	Industry
Investment (Billion rubles)	26.8	15.8
Civilian Employment (million)	99.4	24.9